

Message Text

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ACTION NEA-10

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TAGS: ECON, EFIN, IR
SUBJ: IRAN'S NATIONAL BUDGET FOR YEAR 2537 (1978/79)

REF: TEHRAN 1293

1. IRAN'S NATIONAL BUDGET FOR YEAR 2537 (YEAR ENDING MARCH 20, 1979)
WAS
PASSED WITH MINOR ALTERATIONS BY LEGISLATIVE BODIES MARCH 16. NO
QUANTITATIVE CHANGES WERE MADE ON THE REVENUE BUDGET AND THE NET OF
NUMEROUS SMALL CHANGES IN THE EXPENDITURE BUDGET WAS ONLY A MINUS ONE
BILLION RIALS (DOLS 14 MILLION). THUS, FIGURES IN REFTEL ARE UNCHANGES

PARLIAMENTARY DEBATE WAS GIVEN LESS PUBLIC ATTENTION THAN A YEAR AGO
AND IMPRESSIONS FROM CONTACTS IS THAT THE REPORTS OF THE IMPERIAL
COMMISSION ON THE EFFICIENT UTILIZATION OF RESOURCES
HAD THE EFFECT OF DEEMPHASIZING THE USUAL OPPORTUNITY OF BUDGET
DEBATE TO
VOICE CONCERNS OVER GOVERNMENT PROGRAMS AND FISCAL OPERATIONS. PM
AMOUZEGAR'S BUDGET SPEECH WAS NOTABLE FOR ITS MINIMAL POLITICAL CONTENT,

2. THE APPARENT FISCAL MESSAGE CONVEYED BY THE BUDGET OF MODERATE
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EXPANSION WITH EMPHASIS ON SOCIAL AND ECONOMIC SECTORS IS MUDDLED BY
THE CONTINUING GAPS BETWEEN BUDGETARY OBJECTIVES AND ACTUALS AS WELL
AS
DIFFERENT PERCEPTIONS OF WHAT REAL FISCAL GROWTH WILL BE VERSUS THAT
AT
CURRENT VALUES. DUE PERHAPS TO THIS MISUNDERSTANDING, THE BUDGET HAS
BEEN

ASSAILED BY SOME PUBLIC COMMENTATORS AND BY MANY IN THE ECONOMIC AND BANKING PROFESSIONS AS EXCESSIVELY INFLATIONARY. MORE CUTTING IS THE OFT-HEARD CRITICISM THAT IT IS "MORE OF THE SAME" AND CONTINUES THE UNCOORDINATED ECONOMIC APPROACHES OF THE HOVEYDA GOVERNMENT. GIVEN HIS FISCAL AUSTERITY PRONOUNCEMENTS, AMOUZEGAR IS ALSO CRITICIZED FOR THE 25 PERCENT INCREASE IN THE DEFENSE FUNCTION. (FORGOTTEN IS THE ONE

PERCENT DECLINE IN THE DECLARED DEFENSE BUDGET FOR 2536.)

3. THE FIRST DIFFICULTY IN DETERMINING THE IMPACT OF THE BUDGET IS IN ESTABLISHING APPROXIMATELY REALISTIC BASE YEAR FIGURES FOR COMPARISON

REFTEL NOTED THAT THE 2535 CONSOLIDATED BUDGET WAS UNDERSPENT BY DOLS

7.2 BILLION; DOLS. 3.7 BILLION "SAVINGS" OCCURRED IN THE DEVELOPMENT AND

CURRENT BUDGETS ACCORDING TO THE ADJUSTED FIGURES IN THE 2537 PRESENTATION, DOLS. 2 BILLION WAS ADDED IN AS SPECIAL AUTHORIZATION (MILITARY?) AND THE BUDGET FOR THE GOVERNMENT OWNED ENTERPRISES WAS UNDERSPENT BY

SOME DOLS. 5 BILLION. CENTRAL BANK FISCAL DATA FOR NINE MONTHS 7MARCH TO DECEMBER 1977), CONSIDERED SUBSTANTIALLY COMPLETE, REVEAL 2536 PRO RATE

DISBURSEMENTS FOR THE DEVELOPMENT AND CURRENT BUDGETS OF 75.9 AND 85.

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PERCENT RESPECTIVELY. IF THE 2536 GENERAL BUDGET WAS IN FACT SPENT ON THIS PRO RATA BASIS, ADMITTEDLY A BIG "IF", THEN THE POTENTIAL FOR INCREASED EXPENDITURES IN THESE BUDGETS IN 2537 IS NOT 23.6 AND 21.5 PERCENT RESPECTIVELY, BUT 62.7 AND 40.4 PERCENT. IT IS DOUBTFUL, HOWEVER, THAT THOSE WHO BELIEVE THAT THE 2537 BUDGET IS INFLATIONARY HAVE THESE

DATA OR CONSIDER, AS DO WE, THE PROBABILITY THAT THE 2537 BUDGET ALSO WILL BE UNDERSPENT OWING TO BETTER RECOGNITION OF ABSORPTIVE CONSTRAINTS

AND PRESSURES FOR IMPROVED EFFICIENCY.

4. MORE LIKELY, BUDGET CRITICS HONESTLY BELIEVE THAT THE PERCENTAGE INCREASES OF THE 2537 APPROVED BUDGET OVER THAT OF 2536 ARE DETERMINANTS

OF FISCAL IMPACT AND THAT THE OVERALL 22.8 PERCENT INCREASE IN THE DO

41.6 BILLION GENERAL BUDGET WILL KEEP THE ECONOMY HEATED AND THWART ANTI-INFLATIONARY MEASURES. FOR THE ELEVEN MONTHS ENDED FEBRUARY 19 THE AVERAGE INCREASE IN THE CONSUMER PRICE INDEX WAS 25.9 PERCENT AND IT WAS

18.8 PERCENT UP ON THE YEAR. IF THE AVERAGE RATE FOR 2537 IS 15
PERCENT

AND THE BUDGET AUTHORIZATIONS WERE DETERMINING OF FISCAL IMPACT, THEN
THERE IS SOME POTENTIAL, THOUGH NOT SUBSTANTIAL, FOR INFLATIONARY
IMPACT.

5. EMBASSY'S READING OF THE BUDGET CONTINUES TO BE THAT THE FIGURES ARE

MORE NOTIONAL THAN REAL AND NOT MUCH CAN BE DRAWN FROM RELATIVE
INCREASED
DUE TO GAP BETWEEN ESTIMATES AND ACTUALS. GIVEN CONTINUING INADEQUACY
OF
GOI ACCOUNTS (I.E., SINCE DONE MANUALLY, THEY ARE UNTIMELY) AND
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BUDGETING
CAPABILITIES, AND THE CONSTRAINTS EXISTING FROM THE COMMENDABLE EFFORTS

TO CONTAIN INEFFICIENCY AND DISBURSE ONLY AGAINST KNOWN RESOURCE AVAILA-

BILITY, EMBASSY BELIEVES THAT THE BUDGET INTENT IS TO PROVIDE,
PARTICULARLY IN THE CAPITAL ACCOUNT, THE MAXIMUM LATITUDE TO DISBURSE
SHOULD CIRCUMSTANCES WARRANT. BUT, OVERALL, WE BELIEVE (AND FOR
ECONOMIC WELL BEING HOPE) THAT THE 2537 BUDGET WILL, LIKE ITS
PREDECEURE

BE UNDERSPENT SUBSTANTIALY. SUBSTANTIATING THIS EXPECTATION IS THE
ADMISSION BY THE CENTRAL BANK THAT THERE IS NO INTENTION TO BORROW
THE AUTHORIZED EQUIVALENT OF DOLS 4.3 BILLION FROM THE DOMESTIC CAPITAL

MARKET AND THAT THE AUTHORIZED DOLS 4.4 BILLION EXTERNAL BORROWING IS
EXCESSIVE BY AT LEAST DOLS ONE BILLION.

6. SEPARATE TREATMENT OF THE DEFENSE BUDGET WHEN AND IF ACTUAL FIGURES

BECOME AVAILABLE. UNCLASSIFIED AIRGRAM AND TABLES (SIMILAR TO 1977
A-77) IN PREPARATION.
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